Abstract: In developing economies, home ownership and access to housing finance for the lower-income sectors of society remain a pressing challenge for policymakers. The best efforts of housing authorities are often bedeviled by the twin ‘evils’ of: (i) the inability of prospective homeowners to afford regular repayments for housing finance, and; (ii) the absence (or insufficient) savings to serve as collateral to secure housing finance or to contribute towards a deposit (down payment) to reduce the loan amount. Pension-supported housing loans have been introduced in some jurisdictions as a means of addressing affordability constraints and the lack of savings. Accessing accumulated retirement savings to serve as collateral to secure housing finance has proved to be successful in certain instances but also has its fair share of detractors.

Introduction

The pension-secured housing loan industry is a complex milieu as it involves the interests of a large number of roleplayers and requires balancing the current best interests of prospective homeowners with these same individuals’ future retirement needs, without jeopardising either for the sake of expediency. This case study describes the pension-secured housing loan industry in South Africa. It attempts to put forward the perspectives of the various roleplayers in an effort to generate constructive discussion on how best to tailor the product to satisfy prospective homeowners’ needs, and to highlight the nuances and peculiarities of the product.

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1 The terms ‘pension-secured loans’, ‘pension-supported loans’, ‘pension-backed loans’ and ‘fully guaranteed loans’ are used interchangeably in practice. They refer specifically to loans provided by financiers to individuals for housing purposes, where the collateral for the loan is some percentage of the borrower’s accumulated retirement savings.

2 This case study on pension-secured housing loans was prepared by Linda Sing, adjunct faculty member at the University of Pretoria’s, Gordon Institute of Business Science in South Africa and Executive: Business Decision Support at Tiger Brands Limited, a manufacturer and marketer of FMCG products with a predominantly African footprint. Linda was Director of Affordable Housing at The Standard Bank of South Africa and has worked as a consultant to the World Bank on housing policy. FinMark Trust funded the research for and preparation of the case study and teaching note.
A Prospective Homeowner’s Perspective

Constance Sibanda slowly took in the barren vista before her and heaved a deep sigh. At the age of 37, Constance had managed to use her meagre savings to build a temporary dwelling for her two unemployed children and six-year old granddaughter in one of the informal settlements that had mushroomed on the outskirts of Johannesburg. Recently, the informal settlement had been connected to the national grid via a prepaid electricity system but access to running water was still from a single communal tap, serving an average of fifty families; sanitation was provided from a bank of portable toilets some distance away; and waste collection was non-existent. Despite the poor state of basic services, Constance nevertheless counted herself amongst the lucky few. In the twenty years since migrating from her rural village to find employment in the city, Constance had fortunately quickly found a job with an a printing company, initially working in a relatively menial position, serving tea and coffee to her colleagues; then learning the work of a filing clerk in the back office; and finally moving on to her current position as receptionist for the same company. In Constance’s mind, however, the greatest benefit of her employment had been mandatory enrolment on to the company’s healthcare insurance scheme and retirement fund. As a single parent, the medical insurance had sustained her family through some trying times and her retirement investment would serve to secure her future. Constance was proud of what she had achieved thus far for her family but her deepest yearning – owning her own home – remained a distant dream. Now her employer had just told her about the new pension-supported housing loan scheme that had company had recently adopted. Constance would be able to access her accumulated retirement benefit, which amounted to some ZAR 100,000, to secure housing finance of ZAR 80,000.¹ There had been mention of there being a risk of losing her retirement investment if she found herself no longer being able to service the loan. “It was all very well to know that her retirement needs would be taken care of but what about the more immediate needs and security of her family? Should she risk her retirement investment to reach her dream of home ownership?” Constance pondered.

SOUTH AFRICA – HOUSING IN CONTEXT

Access to decent housing, housing finance and eventual home ownership are intimately linked to South Africa’s socio-political evolution. During apartheid, legislation and aggressive enforcement was in place to prevent black South Africans from freely choosing the area where they wished to live and more critically, generally precluded the majority of South Africans from home ownership. Thus, with the advent of democracy in 1994, the issue of access to housing was a central pillar of the transitional negotiations and it was enshrined
in the country’s Constitution that “everyone has the right to have access to adequate housing.”

The South African government has built and provided at no cost to beneficiaries, 2.7 million houses for low-income households in the period between 1994 and 2012, housing approximately 13 million people. However, despite these efforts the low-income housing sector continues to face significant pressures, and appears to lack coordinated and integrated policies to tackle a raft of challenges ranging from the availability of affordable housing stock in the face of escalating building and material costs, severe constraints on households’ ability to afford housing finance and the concomitant limitations on access to housing finance from the private sector. In June 2013, the former Minister of Human Settlements, Tokyo Sekwale, highlighted that the backlog for public sector housing was 2.1 million units and affected some eight million South Africans.

Over and above the public sector housing backlog and notwithstanding various housing subsidy and other assistance programmes introduced by the state, it was reported that an additional four million South African households earn too much to qualify for public sector housing subsidies but too little to afford a market-related mortgage bond on most private properties. The shortage of housing in this ‘gap market’ is estimated at 600,000 housing units. The accuracy of the estimated housing backlog in South Africa remains a topic of some debate. However, there no doubt that continued rapid urbanisation, smaller family units living as households and the rising middle class indicate that the housing backlog remains significant.

According to the 2011 population census in South Africa, 53 per cent of households own their homes; 25 per cent of households rent; and 19 per cent of households live in rent-free properties. Whilst average annual household

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7 The Department of Human Settlements has introduced a plethora of policies and subsidy programmes - consolidation subsidy, individual subsidy, Integrated Residential Development Programme, institutional subsidy, discount benefit scheme, rural subsidies, subsidies for people with disabilities, the People’s Housing Process, farm resident subsidies, Finance-Linked Subsidy Programme (FLISP) - to facilitate housing access for South Africans.
incomes rose from ZAR 48,385 in 2001 to ZAR 103,204 in 2011, high levels of structural unemployment (especially amongst the youth)\(^{10}\) and inflation fueled by rising fuel, food and electricity prices continues to put home ownership beyond the reach of many households.

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\(^{10}\)South Africa’s official unemployment rate as at July 2013 was 25.6 per cent. Youth unemployment remains particularly high with 30 per cent of 15- to 24- year olds and 41 per cent of 25- to 34- year olds unemployed. (Statistics South Africa)
The Policymaker’s Perspective (contd)

- Although retirement savings make up 60 per cent of South African household savings, the household savings rate has fallen steadily over time.
  - One of the key reasons for this is a result of increased access to credit and irresponsible borrowing and lending practices.
  - However, it was highlighted that responsible credit extension can potentially contribute to increased economic opportunity, income and welfare.

- Consequences of low retirement income are:
  - Increases burden on public finances.
  - Increases the financial vulnerability of the elderly.
  - Greater levels of dependency on family support.
  - Lowers ability of young families to save for their own futures.

Andrew knew that his team was working hard at addressing these challenges and was confident that over time they would be solved with the cooperation of the relevant industry representatives. However, he sighed heavily when he spotted the other document on his desk. It was a copy of the “Service Delivery Protest Barometer”. It reflected that in the first eight months of 2012, there had been more protests (226) than in any other year, averaging some 28 protests per month. For the same eight-month period 79 per cent of the protests had turned violent, a worrying trend. More pertinently, the top-ranked grievance most cited by protestors related to ‘land and housing’ issues; 303 incidents over a six-year period.

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Home ownership and access to housing finance remained a highly-charged issue for many South Africans. There was increasing pressure on government to relieve the housing backlog especially for the poorer sectors of the economy. The 2013/14 budget for ‘local government, housing and community amenities’ is ZAR 132 billion (nearly 13 per cent of the total fiscus), up from ZAR 119 billion in 2012/13. On average this item had grown 10 per cent year-on-year over the last three years. And with elections coming up 2014...
The Policymaker’s Perspective (contd)

Andrew pondered what he should do about the pension-secured loan industry.

- Government would not be able to afford to provide free housing out of public coffers in perpetuity and continue to facilitate access to housing finance for those in the ‘gap market’. Significantly larger budget allocations would be required to address the current backlogs, let alone cope with the inevitable future growth in housing demand.
- The involvement of the private sector would be vital to ensure housing delivery in terms of the Constitution. Pension-secured housing loans were an existing and relatively viable housing finance solution. What steps could be taken to facilitate and encourage this avenue for prospective homeowners?
- However, given the identified challenges in the retirement savings industry, how could he justify potentially putting these investments at risk?
- Should he ban the use of retirement investments as collateral for housing loans altogether? Thus removing the temptation from citizens to potentially ‘mortgage their futures’?
- Or, was there some way to protect citizens’ interests and give them access to housing finance at the same time?
- What regulatory oversight could be put in place to protect the underlying integrity and value of the funds’ assets if a pension-secured housing loan scheme was introduced?
- There had been complaints of high levels of ‘leakage’ with pension-secured loans being used for purposes other than housing; the so-called ‘use of funds’ problem. How could this problem be addressed?
- Some groups felt that the interest rate and administrative charges associated with pension-secured loans were too high. Were they? What were the costs embedded in the value chain?
- Others had bemoaned the lack of transparency in the appointment of third-party loan providers by retirement fund trustees and the potential conflicts of interest that this opacity could give rise to. What governance measures could be put in place to ensure that the process of selecting loan providers is above reproach?
- The issue of the lack of transparency ties in with another concern. In most instances, retirement funds only appoint one loan provider. Should fund members not be given the opportunity to ‘shop around’? Would increased competition offer retirement fund members better loan terms and more importantly, more competitive pricing?

Sources:

- Republic of South Africa. 2012. Strengthening retirement savings – An overview of proposals
The Policymaker’s Perspective (contd)

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Sources:
PENSION-SECURED HOUSING LOANS

Pension-secured loans are also commonly known as ‘pension-supported loans’, ‘pension-backed loans’ or ‘fully guaranteed loans’ in South African industry parlance. Pension-secured housing loans are loans provided by financiers to individuals specifically for housing purposes, where the accumulated retirement savings serves as collateral for the loan. The maximum loan amount is generally calculated as some percentage of the borrower’s retirement investment.

The Pension Funds Act (No. 24 of 1956)

In South Africa, pension-supported housing loans are governed by specific legislation and regulated by the Financial Services Board. Section 19(5) of the Pension Funds Act (No. 24 of 1956) permits a retirement fund to grant a direct loan to its members or to furnish a guarantee for a member’s loan from a third party (e.g. from a bank or another home loan provider). The loan can only be used for the following housing-related purposes:

- To purchase a house;
- To buy land and to erect a dwelling on it;
- To make additions or alterations to, or to maintain or repair an existing dwelling, or;
- To repay a third-party loan which is secured by mortgage bond over a property.
- The maximum loan amount cannot exceed 90% of the fund member’s accumulated retirement savings.

Financial assistance (in the form of a direct loan from the retirement fund or a guarantee to secure a third-party loan) is conditional on the property being registered in the name of the member (or his/her spouse). The property must also be occupied by the member; or dependents of the member. The retirement fund cannot grant (or secure) a loan for more than one property.

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12 The Financial Services Board is an independent institution established by statute to oversee the South African non-banking financial services industry with a mandate to protect public interests.

13 Under current circumstances, the escalating price of serviced land, and that of existing or new homes has put the prospect of first-time homeownership or property upgrading for poorer households out of reach for many households.

14 The Pensions Fund Act (No. 24 of 1956) specifies that “A loan...shall not exceed...90 per cent of the market value of the hypothecated property concerned...(or) the amount of the benefit which the member would receive if he were to terminate his membership of the fund voluntarily...whichever is the lesser amount.” - This percentage can be increased to 100% if the employer provides an irrevocable guarantee for the difference (section 19, paragraph 5 (c) of the Pensions Fund Act No. 24 of 1956).

15 As is often the case with regulation, whilst the underlying intent is admirable (in this instance to facilitate access to housing finance but to preclude retirement fund members from speculative
The Financial Services Board, which is mandated to regulate retirement funds, has made it clear that there must be every intention to repay the pension-secured housing loan and that it should not be used as a means to accord members premature access to their retirement benefits. The intention should be to have reinstated the full value of benefits by the time the member retires.\textsuperscript{16}

\section*{Approaches to Pension-Secured Lending}

Pension-secured housing loans are in themselves relatively simple financial products; the loan application and fulfillment process, and the disbursement of funds to prospective homeowners (borrowers) is straightforward. However, concluding the necessary agreements and setting up the pension-secured lending scheme often give rise to most of the administrative challenges, and costs, associated with the pension-secured loans environment. The process of marketing and concluding the loan scheme with pension fund trustees, managing third party relationships, and implementing regulatory and compliance measures, prior to implementing the loan scheme is time-consuming and resource intensive.

Pension-backed loan schemes generally follow one of two financing models:

1. \textbf{Direct loans} to members financed from the retirement fund’s coffers. Depending on the particular fund’s rules: (i) when members join the fund, they automatically contract to repay any outstanding loan obligations when they leave the fund or retire, or; (ii) members who borrow against their retirement savings are required to cede their retirement savings to the fund at the time of applying for the loan. The retirement fund can choose to provide loan administration, fulfillment and management functions themselves, or to outsource the process to a third party. Direct pension-secured housing loans represent an opportunity cost to the fund as the cost of not investing members’ savings in a wealth-generating vehicle and the administrative functions required to manage the loan portfolio constitutes a real cost to the fund. In South Africa, about 30 per cent of all pension-secured loans are direct loans from the retirement fund to their members.
2. Pension-secured housing loans can also be provided by third-party loan providers, which include commercial banks and other non-bank financial institutions. In this instance, trustees appoint the lender and negotiate the scheme arrangements (for example, interest rates, loan terms and conditions, loan fulfilment process) on behalf of their members. Funding for the pension-secured loans is furnished by the loan provider, leaving the retirement fund’s assets intact. The third-party lenders are responsible for all loan administration, fulfilment and management functions. In South Africa, some 70 per cent of all pension-secured loans are from third-party loan providers.

The advantages to the retirement fund of appointing a third-party loan provider over offering loans to fund members directly are:

- Funding for the loans is furnished by the loan provider (and not from retirement fund reserves or investable funds). This allows trustees to invest fund assets in investment vehicles that continue to generate market-related returns for their members.
• Trustees do not have to be concerned about eroding fund assets (and investment returns) in order to finance the loan book. There are examples of loan books being allowed to grow so large that fund assets have been diverted to finance the loan book instead of being directed towards generating long-term investment returns.

• Trustees are able to ring-fence the depletion of members’ retirement savings at individual member level in the event of members defaulting on their loans. The entire fund does not have to carry the cost of bad debts (as it would have to do if direct loans were given). The risk of bad debts lies with the loan provider.

• Fund trustees do not have to concern themselves with administering a loans business, supporting infrastructure costs and developing core competencies in lending. Compliance with legislation, for example, the National Credit Act, Consumer Protection Act, Financial Intelligence Centre Act and other regulatory requirements further adds to the administrative burden.

The number of retirement funds and the value of direct loans providing direct loans to their members are trending downwards. According to the Financial Services Board (FSB)\(^ {17} \), ‘housing loan facilities’ for all FSB-registered funds totaled ZAR 853.3 million in 2010, compared with ZAR 1.1 billion in 2005.\(^ {18} \) Industry commentators attribute this trend to the plethora of legislation impacting on loan providers and the associated compliance requirements.

**RETIREMENT FUNDS IN SOUTH AFRICA – HOUSING LOAN FACILITIES, 2008-2010 (ZAR)**

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Some retirement fund trustees, however, continue to support direct loans to fund members, as they believe that retirement funds are able to offer more competitive interest rates than third-party loan providers. In addition, trustees feel that by offering direct loans, the fund retains greater control over the ‘use of funds’. They feel that as the regulators ultimately hold the fund (and the trustees) accountable to ensure that loan proceeds are used only for housing purposes, they would do a better job with enforcement in an effort to protect the fund (and trustees’) interests. There is also a sense that in-sourced loan schemes would protect, and be more sympathetic to, fund members’ interests than a third-party loan provider, in the event of the member defaulting on loan repayment and a claim being lodged against the retirement savings.

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\(^ {17} \) In South Africa, the Financial Services Board’s Registrar of Pension Funds is legally mandated with oversight of the retirement fund industry.

\(^ {18} \) Financial Services Board, Registrar of Pension Funds. Pensions Annual Reports. Available at [http://www.fsb.co.za/pension/PFRep.html](http://www.fsb.co.za/pension/PFRep.html)
The Pension-Secured Lending Value Chain – Third-Party Loans

In South Africa, the value chain associated with appointing third-party loan providers is currently relatively complex and costly, and potentially open to undue outside influence. The following description of the various participants in the value chain highlights these elements.

PENSION-SECURED LENDING VALUE CHAIN – PARTICIPANTS
Figure 3: Sing (2009)

The typical marketing process followed by third-party loan providers is to approach the board of trustees to consider introducing the pension-secured housing loan scheme for the benefit of retirement fund members. The board of trustees of a retirement fund (sometimes based on the advice and with the assistance of the fund administrator and/or specialist consultants) appoints a loan provider. The trustees (on behalf of the fund) provide a guarantee undertaking to the loan provider to repay the member’s loan in the event of default.
Perspectives from Retirement Fund Trustees

The implications of recent legislative changes for retirement fund trustees require compliance with respect to:

- The organisational governance of trustee boards.
- Trustee boards’ decision-making and efficient implementation in a face of increasing regulatory requirements.
- The skills, knowledge, time and resources required by trustees to deal with increased risk management complexity.
- Trustee board’s contractual agreements with intermediaries.
- The cost of administering funds.

Judith Sibanda, human resources director of Key Printing Concepts and Elias Tobias, a trade union shop steward at the same company, are both board trustees on the company’s retirement fund. They had just attended a fund trustees’ meeting where BancUno had presented a proposal to introduce a pension-secured housing loan scheme for the fund’s members. The board of trustees had agreed to reconvene in two weeks to discuss BancUno’s proposal and to make a final decision. Judith and Elias considered the options.

- Judith viewed her fiduciary duties as a fund trustee in a serious light and was becoming increasingly apprehensive about the potential personal liabilities associated with being a trustee. She had very little knowledge about the pension-secured lending market and risks associated with such a loan scheme. Surely her primary (and only) responsibility as trustee was to safeguard the value of fund members’ retirement investment? Pension-secured housing loans could be seen as peripheral to the main work of the board of trustees. So, to save herself a lot of effort (and to protect herself from incurring unnecessary personal risk) should she not simply veto the scheme?
- In any event, would the pension-secured loan scheme not mean more paperwork and even greater demands on compliance? As if, the board of trustees were not already overwhelmed with legislative and regulatory issues! For instance, how on earth were trustees expected to ensure that members only use the pension-secured loans for housing purposes and not to buy plasma screen televisions, to pay school fees or to bridge shortfalls in household cashflow? Regulators had stipulated that compliance with the ‘use of funds’ regulations remained the sole responsibility of trustees, notwithstanding the involvement of administrators, loan providers or employers in the loans fulfilment process.
Perspectives from Retirement Fund Trustees (contd)

- Managing and monitoring the activities of the third-party loan provider to ensure that fund members’ interests are protected would be onerous and time-consuming. Would it not be simpler and afford trustees greater control if the retirement fund opted for a direct loans scheme, instead of appointing a third-party loan provider?

- Another thing, one of the BancUno team was an old university classmate and had asked Judith to facilitate the meeting with the board. Judith had arranged for BancUno to present their proposal the board trustees. This morning Judith had received a Montblanc pen (worth R5000) as a gift, accompanied with a note that indicated ‘there would be more to come’ should BancUno be successful in concluding this deal. In hindsight, would Judith’s involvement be deemed ‘improper’ dealings with a potential intermediary? And how should she manage the relationship going forward?

- Like Judith, Elias did not fully understand the pension-secured loan scheme but what he did know was that his ‘comrades’ in the trade union were desperate to improve their housing conditions. Any scheme that could assist his workmates to access housing finance would be a good thing. However, the interest rates and administrative fees that BancUno mentioned seemed expensive for a secured loan. Were the rates market related and commensurate with the size of the membership base and estimated growth in the loan book?

- What loan terms could be negotiated to benefit fund members?

- What other benefits could trustees consider negotiating with loan providers? Attractive associated financial services packages? For example, lower premiums for credit life insurance, preferential transactional banking rates, loyalty benefits for members, reduced fund administration fees.

- Third-party loan provider’s margins are predicated on loan volumes; the greater the number of potential loans that could be advanced, the greater the economies of scale. Therefore, in an effort to secure the lowest interest rates on behalf of fund members and to streamline administration, trustees would appoint only one third-party loan provider. Elias also did not understand why the fund had to give exclusive rights to BancUno to manage and administer the pension-secured loan scheme. Would it not be more beneficial if fund members could approach a number of different loan providers to access housing finance? Would this make it more difficult for the fund (and employers) to manage the loan scheme?
Perspectives from Retirement Fund Trustees (contd)

- Whilst the pension-secured housing loan appeared to be a good option to secure housing finance, Elias was concerned that there could be the likelihood that defaulting members could lose not only their retirement investment but their house as well. He could never forgive himself if that happened. What could he do to prevent this?
- To protect fund members, the regulation stipulates that no more than 90 per cent of a member’s accumulated retirement savings (at current market values) can be put up as collateral. In practice, funds limit the maximum loan amount to between 60 and 80 per cent. What would be a reasonable figure that maximises the amount that members can borrow, whilst at the same time does not jeopardise members’ long-term investments?
- Elias had the utmost respect for his colleagues but the pension-secured loan scheme was complicated and the potential risks associated with taking up loans were significant. How would the board trustees ensure that detailed and appropriate communication to fund members is made available?

Source:

Once third-party loan providers secure the approval of the retirement fund’s trustees to introduce the loan scheme, they have to approach employers separately to obtain their consent and cooperation to assist in the loan fulfilment process. For fund members’ (employees) convenience, on-site facilities and personnel should be available for employees to apply for pension-secured loans and to complete all the necessary steps associated with loan administration. Employers submit the pension-secured loan applications to the loan provider, and are expected to liaise closely with loan providers to manage loan fulfilment and to effect monthly deductions from the fund member’s salary to repay the loan.
An Employer’s Perspective

Reginald Moloi, CEO of Key Printing Concepts, was irritated. He had recently been briefed by Judith Sibanda, the HR director, that the retirement fund’s trustees were considering the introduction of a pension-secured loans scheme at the company.

• Whilst the pension-secured housing loans would be a boon for his employees and he could probably garner some goodwill for being seen to be offering an additional employee benefit to his employees, he anticipated that the administration of the loan scheme was going to cause him some headaches. He could not refuse to accept the loans scheme or there would be ‘hell to pay’ with the trade unions. This was a busy time for the company and the economic downturn had had an adverse effect on orders. Was there any way that he could delay implementation of the pension-secured loan scheme to a more opportune time?

• Firstly, he would probably have to hire at least two additional staff members dedicated to administering the loan scheme and to liaise with the loan provider. This would incur a direct cost to the company. With the economy still contracting and profit margins under pressure, how was he expected to afford this additional expense?

• Secondly, the loan provider would no doubt be requesting the company to sign some form of undertaking that they would implement and honour a payroll deduction regime that would ensure that monthly loan repayments would be deducted from employees’ wages/salaries. This could prove to be an administrative nightmare should there be some operational mix-up or human error. How bothersome! Reginald wondered, too, if the new systems/IT changes would incur additional costs?

• Thirdly, Reginald anticipated an initial fall off in productivity as employees clambered to access loans. This could not happen at a worse time with Christmas and New Year printing orders around the corner. A regular roster to manage the loan fulfilment process would also have to be implemented on an on-going basis to ensure smooth administration. What processes and procedures needed to be introduced to ensure that productivity was maintained?

• Fourthly, there was also the chance that the pension-secured loans scheme could give rise to employee dissatisfaction; especially if the loan provider declined a loan, or if employees could no longer afford loan repayments and lost their retirement investments. With high levels of unionisation in the company, the loan scheme could trigger labour flashpoints. How should Reginald communicate the roles and responsibilities of the multiple parties (fund trustees, fund administrator, loan provider, the employer, the employee, the trade union) involved in the scheme to ensure that employees understood the issues and to obviate and future labour disputes?
In the third leg of implementing the pension-secured housing loan scheme, following retirement fund trustee approval and a cooperation agreement with the employer, the loan provider has to engage the fund administrator to participate in the scheme. Retirement fund administrators are generally external suppliers that support the board of trustees in the day-to-day administration and management of the retirement fund.

The loan provider, on being advised by the employer that the fund member has initiated the loan application process, needs the fund administrator to verify that the retirement fund member has sufficient retirement savings to guarantee the loan amount that has been requested. Once the loan is approved, the fund administrator is also responsible for “flagging” the member’s retirement savings account to note that the retirement savings have been earmarked to secure the pension-secured loan. Should the member leave his/her employment before the pension-secured loan is repaid, the fund administrator is tasked to ensure that the outstanding loan amount is deducted from the member’s retirement savings and paid to the loan provider, prior to the accrued benefit being paid out to the member.

A Loan Provider’s Perspective

Thomas Prescott, head of the pension-secured lending business at BancUno sunk wearily onto the couch in his office. Times were tough and new business difficult to come by. His marketing team was reporting back on progress with Key Printing Concepts proposal, an important target account. The division was relying on securing the company’s business to meet the year’s sales budget...or there would be no bonuses for the team again!

- Thomas had only been running the pension-secured loans unit for six months and was becoming increasingly frustrated with the low levels of awareness about the pension-secured loan product. The value chain was simply too complex; with wary fund trustees, reluctant employers and fund administrators, and unsophisticated borrowers. How could the team be expected to successfully market the product if the odds were stacked up against them? How could he raise overall awareness about the product?
- Even with existing pension-secured loan schemes, ‘scheme penetration’, i.e. the actual percentage take-up of loans by fund members, is low. This was attributed to low levels of awareness about the product by members themselves and a lack of incentive for those closest to potential borrowers, i.e. employers, to assist in the marketing of the product to employees. An added challenge was that, like most competing loan providers, the pension-secured loan business only constituted a small portion of the financial institutions’ total business portfolio and therefore, enjoyed relatively fewer resources (management focus, capital, people, marketing spend). How could Thomas’ team strategically command more resources to support their marketing efforts?
A Loan Provider’s Perspective (contd)

• For BancUno, there is a high degree of dependence on employers to market the loan scheme to employees, to effectively manage the loan fulfilment process and to deduct the monthly repayments from employees’ salaries/wages. Employers were becoming increasingly resistant to bearing the added administrative burden and cost. It was becoming increasingly obvious to Thomas that a convenient and geographically dense distribution network controlled by BancUno is necessary to improve ‘scheme penetration’ and reduce loan providers’ reliance on employers to market to employees. Could a cost effective and representative distribution and loan fulfilment channel be introduced? For example, if the loan provider is a bank, could bank branches be used to provide loan initiation and loan fulfilment functions?

• The marketing lead-time was long; averaging between 6 and 18 months from initial proposal stage to scheme implementation. There were many potential obstacles to concluding the deal along the way and the competitive environment was heating up. The entire value chain was largely dependent on strong relationships with retirement fund trustees, fund administrators, asset managers, umbrella retirement funds, trade unions, consultants and actuaries, industry associations and businesses (employers). What marketing strategy could be put in place to ensure that the business maintained a healthy pipeline of prospects?

• The pension-secured loan product was increasingly becoming commoditised. Fund trustees, trade unions, employers and fund members were appointing loan providers primarily on pricing. What forms of value added services and benefits could be added to enhance the pension-secured housing loan product in order to ‘de-commoditise’ the offering?

• Therefore, if Thomas and his team were encountering resistance from fund trustees to introducing pension-secured loan schemes because of the risk of abuse by fund members and diversion of loan proceeds for non-housing uses, what could they do to address trustees’ (and regulators’) concerns? Would offering a ‘use of funds’ management and monitoring service be a means to add value and to ‘de-commoditise’ the product? Would it address the concerns of policymakers, regulators, fund trustees and trade unions regarding the possible mis-use of funds for non-housing related expenditure? What mechanisms could be put in place to stop the leakage of loan funds and to protect fund members’ retirement savings?
CONCLUSION

Historical housing backlogs, continued urbanisation and limited access to housing finance, especially among lower- and middle- income groups will continue to put pressure on governments and policymakers to find innovative solutions to housing delivery and home ownership. For many prospective homeowners in formal employment or for those who have been able to accumulate retirement savings, the pension-secured housing loan product offers a viable (though sometimes flawed) alternative to housing access and therefore cannot be discounted.